MEDIA MONITORS
INCISIVE INSIGHT

CFO
June, 2006
Page: 40
Section: General News
Region: National Circulation: 7,815
Type: Magazines Business
Size: 1,564.36 sq.cms.
Published: Monthly

MANAGEMENT PUBLIC SECTOR GOVERNANCE

Off the agenda

ANNUAL MEETINGS ARE SLIDING RAPIDLY OUT OF FAVOUR. URGENT TREATMENT IS NEEDED IF THESE BULWARKS OF THE CORPORATE WORLD ARE TO SURVIVE, MAGGIE MACRAE REPORTS.

Annual meetings have long been a cornerstone of corporate governance for listed companies. They are key events where owners – that is, shareholders – and management meet to discuss performance and prospects, and undertake crucial corporate business.

However, recent examinations of AGMs by corporate governance and legal experts, professional associations and business groups have produced the same worrying diagnosis: they are seriously ill and, if left untreated, their demise is inevitable.

The AGM suffers from a host of operational problems, from falling attendance levels to increasing shareholder voting frustration, rising staging costs – up to about $1000 a head – and reluctance by participants to acknowledge the illness and begin treatment.

Kate Lahey, chief executive of the Business Council of Australia, says AGMs no longer rate as a source of share advice and are largely irrelevant for big institutional shareholders. The value derived from them is limited and their relevance is questionable.

A recent report by the Chartered Secretaries Australia found that AGMs were suffering "a popularity crisis". During 2005, only 28 per cent of AGMs for top 200 listed companies attracted more than 300 shareholders, the report found. "Not only does this constitute less than 3 per cent of the shareholder base, but it is down from 36 per cent in 2001 and 34 per cent in 2003," CSA chief executive Tim Sheehy says.

Research by the BCA and a study by law firm Blake Dawson Waldron for the BCA yielded similar results. The council's research found AGM attendance levels were only half of what they were 10 years ago, while the 2005 BDW study found that nalist, founder of media website Crikey and shareholder activist, says the 2005 AGM season was one of the worst ever, with attendances – and the standards of debate – falling further.

"[AGMs] are certainly as dead as I've seen them over the past 15 years," he says.

Apart from declining attendances, there are plenty of other symptoms of AGM illness. The CSA report found that of shareholders who did not attend AGMs, only 10.5 per cent used proxy voting – as a percentage of issued capital that number equates to 46 per cent.

Proxy voting has long been the source of angst and frustration for retail shareholders. Mayne says most do not bother to vote because they believe it is "stitched up" by the institutions through proxies. Lahey explains that proxies do not ensure all votes are delivered as directed, there is no obligation for a company to use proxies and resolutions can be passed or rejected on a show of hands alone.

Sheehy says the proxy system is riddled with problems. Missing, uncounted or ignored proxies have recently caused significant embarrassment for the likes of the National Roads and Motorists Association, Coles Myer, Novogen and AMP Capital. He argues that the system is out of date and shareholders can easily vote by other direct means such as telephone, email, web or post.

The BDW study reported poor participation rates at 2005 AGMs – by all shareholders. Only about a third featured questions from the floor to directors or executive management. At most meetings, only one question was asked from the floor. The study's co-author, BDW partner Elspeth Arnold, says she is surprised at just how low key AGMs have become.

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Sheehy believes other symptoms of AGM illness are shareholders' increasing sense of disengagement and the inflexible, structured set-up of AGMs that produces an "us and them" divide between the board and management on the podium and shareholders on the floor.

Frank Bush, director of specialist corporate governance and company secretary practice Lisbourne Consulting, agrees. He believes the attitudes of those on the podium only increases this divide.

Directors approach AGMs too defensively and act as though they are there because they have to be, not because they want to be, Bush says. "AGMs are a major marketing and PR opportunity [for directors and senior management]."

Bush, a former company secretary of GIO and Aristocrat Leisure and former national president of the CSA, believes AGM illness is also due to the efforts of those who plan to restrict them as much as possible to the statutory minimum.

"This shows disregard for shareholders' interests and produces a less interesting and informative meeting," he says.

Ironically, a cause of AGM illness is the good health of the economy and stockmarket. Shareholders are happy with the state of their companies and see no reason to attend AGMs, let alone ask tough questions or vent frustrations.

"Given the healthy state of the stockmarket in recent years, shareholders have had relatively few frustrations to vent at AGMs," Sheehy says. "When the market turns down they will probably come back in droves." Mayne agrees. However, not everyone is convinced. Stuart Wilson, chief executive of the Australian Shareholders Association, says those claiming illness are mostly company chairs or company secretaries.

"It seems that anyone proclaiming the demise of the AGM either wants to avoid embarrassment on a public stage or get out of doing work," he says. "AGMs are as important, if not more so, today than 30 years ago."

He believes shareholder questions and comments have increased in both volume and quality, and should continue to do so if a national financial literacy initiative is set up. Proxy voting is on the increase and attendance is generally healthy.

Computershare CFO Tom Honan also does not believe that AGMs are ill in Australia or elsewhere. Computershare manages AGMs for more than 10,000 companies in about 20 countries, he says. In many countries, AGMs are becoming more popular and attendances are rising. He claims it is the annual report, not the AGM, that is ill and in need of treatment.

Not surprisingly, there are just as many suggestions about how to treat AGM ill health as there are symptom spotters. The BCA, the CSA, the Australian Institute of Company Directors and Mayne have all been active in developing treatments.

Recommended treatments range from calling for shareholder questions to directors and management in advance of AGMs to less formal shareholder meetings, placing matters identified by shareholders on agendas, improving conduct, improving the way shareholders initiate company meetings, improving the proxy system, improving shareholder participation, involving the heads of board committees in shareholder discussions, developing shareholder communications policies, and increasing the use of technology for communications between companies and shareholders.

Companies such as Telstra, the Commonwealth Bank of Australia, Orica, Qantas, Caltex and ANZ have already applied questions in advance, supplementary meetings and the use of leading-edge technology for improved communications.

The BDW study found 43 per cent of surveyed companies called for questions from shareholders in advance of AGMs. Shareholders of 39 per cent of companies surveyed submitted questions before meetings. And 83 per cent of companies answered these questions in the chairperson's address while 17 per cent tabled written answers at AGMs or posted them on their websites.

However, matters identified by shareholders were not placed formally on the agendas at any AGMs last year.

Mayne has his own 15-point treatment plan for AGMs (see Reform plan of action, page 40). His top four remedies are: change the criteria for shareholder resolutions from 100 signatures to $5000 worth of shares; require institutions to disclose how they vote; direct voting; and publish all votes.

The current shareholder resolution method makes it too hard for shareholders to propose resolutions to improve a company's governance, Mayne says, while direct voting will eliminate the "dead-rubber" effect in which 99 per cent of votes are lodged as proxies more than 48 hours before AGMs. Vote disclosure and publishing would "dramatically increase" the importance of securing mandates from smaller shareholders.

Like Mayne, the CSA and the ASA are advocates of direct voting. "This would ensure that when a shareholder votes there is no possibility that their vote can be directed any other way than how the shareholder intended," Sheehy says.

Direct voting enables shareholders to exercise their voting right without having to attend meetings or appoint proxies or other representatives over which they have no control, he says, and eliminates the potential for abuse, especially "cherry-picking" of votes. He cites the NRMA as a successful user of direct voting.

Telstra CFO John Stanhope believes improved communications between companies and shareholders is a key part of AGM treatment, and one of the most effective ways to apply it is by using state-of-the-art technology.

To date, Telstra has posted all relevant corporate, shareholder and AGM-related information on its corporate website, established a dedicated, interactive website for shareholders as well as a direct shareholder email system. It also webcasts its AGMs. (The BDW study found that 51 per cent of AGMs were webcast last year.)

All these innovations are working well, Stanhope says. About 300,000 Telstra shareholders receive information from the company electronically, the shareholder centre at the telco's corporate website averages 33,000 visits a month and its dedicated shareholder website has received more than 78,000 visits to date.

Telstra's latest innovations are podcasts and blogs (web logs) for shareholders, staff and special-interest groups.

Orica also has a shareholder email system. CFO Noel Meehan says shareholders can also receive their proxy forms by email, while electronic submission of proxy appointments and power of attorney is also available. To improve voting accuracy at AGMs, Qantas introduced electronic voting last October, making it the first company in Australasia to do so. Westpac followed soon after. But, as Sheehy stresses, there is no off-the-shelf treatment for AGMs and all treatment is voluntary. Lahey agrees. "It is for individual companies and their shareholders to work out what works best for them in their particular circumstances," she says.

Do CFOs have a role to play in AGM reform and an expanded role to play at AGMs? Some experts and CFOs say yes. Others say no. Honan, for example, who is also president of the G100 – the lobby group for CFOs of Australia's leading organisations – agrees with Stanhope and Bush.

Stanhope believes that given the changing role of CFOs, which can now include being a steward and a strategist, it is only natural that they will have a higher profile and a more involved and more important role at AGMs and with AGM treatment.

At an operational level, the future of Australia's CFOs is about providing high-value-added decision support to CEOs and senior management teams, and having greater engagement with board directors and shareholders.

"CFOs are expected – rightly – to be visible and accountable," he adds. "Shareholders want to see CFOs at the side of CEOs, providing strategic input as well as traditional, financial stewardship.

'Unless we can improve AGMs, the number of attendees will continue to fall and they [AGMs] will become an anachronism'
Kate Lahey

"It is most likely that shareholders are looking to CFOs to give assurance that the financials of the company are well managed and controlled – that what they are reading in the financial statements and notes is, in fact, true and fair."

Bush thinks the active involvement of CFOs at AGMs is an excellent idea. "Shareholders benefit from being able to talk to senior management and form a judgment about the depth of management," he says. "This particularly applies to CFOs."

But Peter Marriott, CFO of ANZ Bank, is not keen to increase his already heavy workload. Nor does he think it is appropriate for CFOs to be more involved in AGMs, with shareholders, or with AGM treatment plans.

However, as the role of the CFO develops, the consensus is that AGMs must be treated – the sooner, the better. Otherwise, neither management nor shareholders will have any AGM roles to play. Lahey warns: "Unless we can improve AGMs, the number of attendees will continue to fall and they [AGMs] will become an anachronism."

REFORM PLAN OF ACTION

Stephen Mayne, former business and finance journalist, Crikey founder and shareholder activist, has developed a 15-point AGM reform plan that he believes will improve the system for everyone:

- Eliminate the 100-shareholder rule to get a resolution on the agenda and replace it with a share-worth value of, say, $5000.
- Shut the gate on dubious extraordinary general meetings.
- Make the debate and voting live and keep proxy or direct voting open for 24 hours after the the meeting.
- Disclose institutional voting.
- Get the professionals – institutional investors and analysts – contributing to the debate.
- Make chairpersons much tougher on "nutters" and have them encourage different shareholders to speak.
- Introduce genuinely independent chairpersons or moderators.
- Do not let the chairperson monopolise the meeting, set maximum speaking times and allow other directors to contribute to the debate.
- Let shareholders observe any post-AGM press conference.
- Manage the quality, serving and timing of food and beverages well.
- Disclose shareholder voting both for and against resolutions, as well the total amount of shares voted.
- Manage special-interest groups better by giving them a designated time to have their say.
- Maximise attendance by enticing more shareholders to attend.
- Webcast the entire AGM and archive it online.
- Provide some entertainment and be entertaining.

AGM ACE, NOT AILING: ANZ

Annual general meetings have not become ailing general meetings; rather, the opposite, ANZ chief financial officer Peter Marriott says.

"As a formal forum for engagement with retail shareholders, the AGM continues to work, and work well, for ANZ," he says. "All involved find the AGM constructive and useful, whether they are retail or institutional shareholders, customers or staff.

"Many of our customers are also our shareholders, as are all of our 30,000-plus staff. We always get a good roll-up, even when we rotate the venue to other cities [besides the bank's home city of Melbourne]."

ANZ holds annual retail shareholder meetings to supplement those of the traditional AGM as well as briefings for institutional shareholders.

These are more informal affairs, with shareholders able to personally question and interact with the bank's board, management and staff, Marriott says.

Blake Dawson Waldron partner Elspeth Arnold, co-author of a 2005 report on AGMs and a regular attendee at ANZ AGMs over many years, says the bank is "a star performer" at AGMs and shareholder meetings. Everyone and everything is well prepared, she says, and board, management and staff engage with shareholders.

Marriott says that ANZ is continually reviewing its AGMs, including new technologies, to improve AGM voting accuracy. However, the AGM e-voting technology he has seen so far looks "a bit flaky", he says, and improvements are needed before ANZ will consider its introduction.

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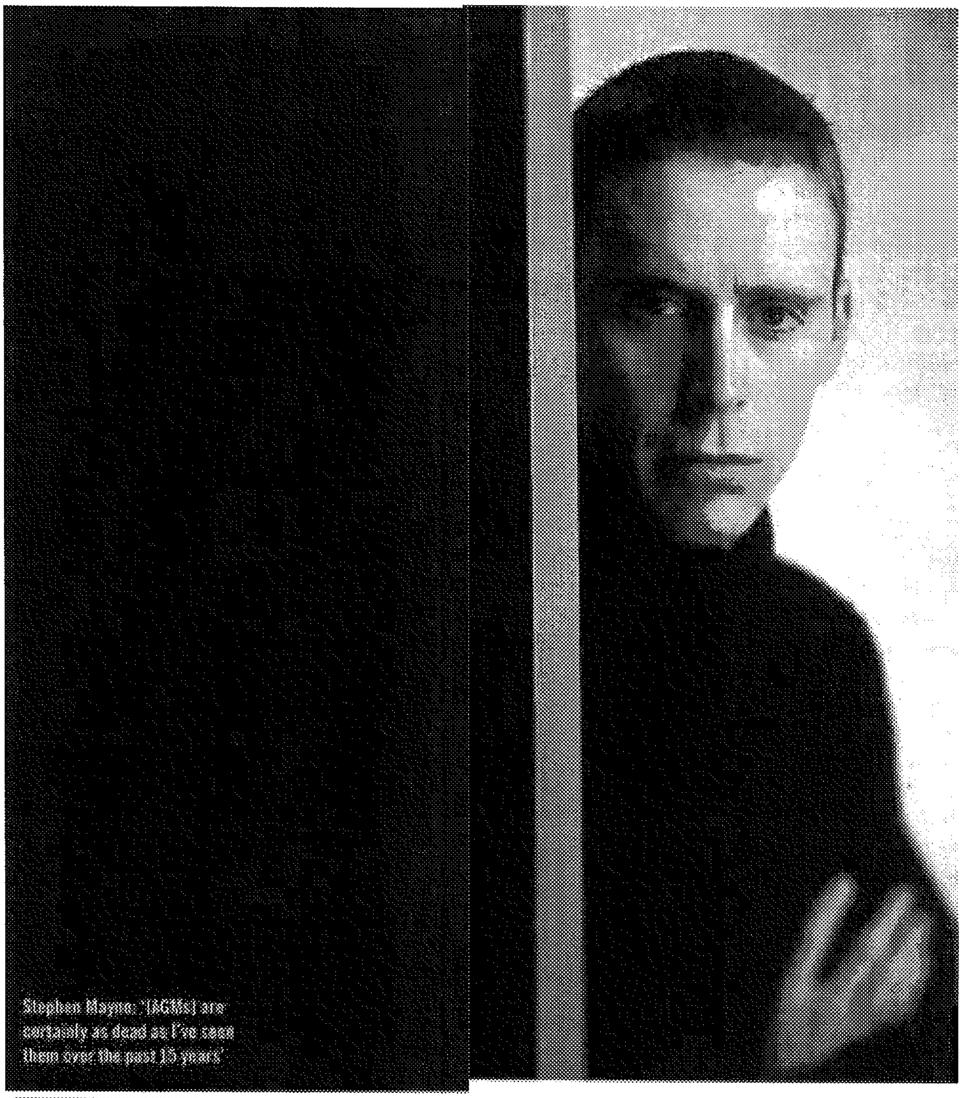
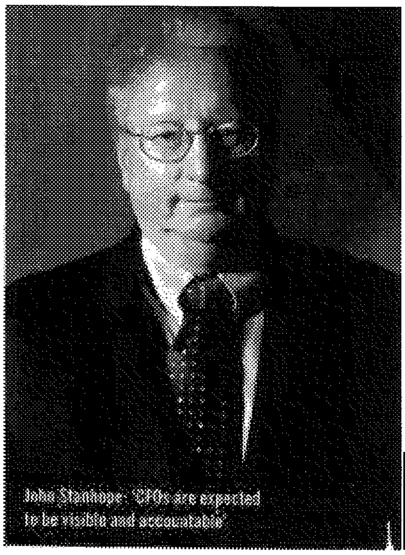


Stephen Mayne: '[AGMs] are certainly as dead as I've seen them over the past 15 years'

ANDREW TAYLOR



John Stanhope: 'CFOs are expected to be visible and accountable'

GABRIELE CHAROTTE

Tim Sheehy: 'Shareholders have had relatively few frustrations to vent at AGMs'

LOUISE KENNERLEY